

# Structured solutions to enjoy resurgent support in Asia

*Investors look set to slowly raise their level of engagement with structured products, as more of them become better educated about how they work, and product transparency continues to rise, said panellists at Hubbis' inaugural Structured Products Forum 2015 in Singapore in June.*

Demand for structured products is rapidly rising in Asia after several years of subdued activity following the global financial crisis, and this renewed momentum looks set to increase in the coming years, said panellists at Hubbis' inaugural Structured Products Forum 2015 in Singapore in early June.

The demand for structured products has rebounded after concerted efforts by financial regulators to insist that product manufacturers as well as private and retail banking distributors raise the standards of product transparency, take investor risk preferences into account, and do more to educate the end-buyers.

"There was a brief respite [in the popularity of structured products] after 2007 in volumes and interest but it has come right back and now we are back where structured products do have a position of pre-eminence in mind-set of investors," said Rohit Jaisingh, head

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**ROHIT JAISINGH**  
DBS Bank



of equity and commodity investment products at DBS Bank.

The global financial crisis of 2008 badly impacted the reputation of structured products. This was both because of the role sub-prime mortgage-linked products played in the market collapse, plus, in Asia, many retail investors lost money once Lehman Brothers col-

lapsed, as it had issued many Minibond structured products to retail investors, in Hong Kong in particular.

## **GREATER UNDERSTANDING**

The panellists said the regulators have worked hard since then to hold structured products providers to a higher standard, making it far harder to distribute such products to retail inves-



tors, while also offering far more clarity over the risks involved.

"There has been an increased focus in understanding products in the mindset of the investors," said Jaisingh. "There has also been a huge amount of focus on the suitability of these products, in particular to the clients and investors to whom they are offered. As a result, today in general I would assert that the investing public is much more aware of products than they were in 2007."

Harry Krkalo, head of structured solutions, private banking sales, at Leonteq Securities in Asia, noted that the comfort investors now have with these products is down to a greater understanding of them.

"Investors are getting a lot smarter, and a recently-reported survey revealed that there is a lot more self-direction, with online tools being greatly embraced by the investing public," he said.

"People are now demanding structured products as opposed to being sold them, and new advisers are advising as opposed to selling."

However, structured products continue to constitute the minority of HNW individual investments.

Jaisingh estimated that 11% to 12% of the capital of the HNW clients of DBS is invested into various types of structured products, on average.

"If you were to read some sections of the press you'd get the impression that people have all their wealth invested into structured products, and some of

these products have blown up and led them to become paupers, but it's far from it," he said.

## RAISING RETURNS

The panel noted that a major advantage of structured products is their flexibility. "They can be used to meet different objectives, whether capital protection, yield enhancement or leverage," said Jaisingh.

However, most Asian investors like to use them to help increase investment returns. This attitude is not entirely surprising, given the longstanding low interest rate policies of many major economies globally.

"At a time when real returns are negative, investors at least want to beat inflation, which is a key reason why they invest into structured products," said Jaisingh.

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## HOW CAN WE INCREASE PENETRATION OF STRUCTURED PRODUCTS?

Automation and automated advice



It is unlikely to happen



Product innovation



Greater price transparency



More education of clients and advisers



Source: Hubbis Structured Products Forum 2015 - Singapore

access,” adds Hans Goetti, head of investment for Asia at Banque Internationale A Luxembourg. “And in a zero interest rate environment they can be income generators, while investors can also get products that offer them principal protection.”

A sentiment poll of the audience was taken on the question, ‘After the resurgence of structured products in 2014, do you expect demand in 2015 to be more, less or similar?’ The panelists were unanimous: there will be more volumes of issuance. The poll result bore this out, with 61% voting for ‘more’.

### TECHNOLOGY EVOLUTION

While volumes are rising, the appetite for products remains relatively conservative, with investors tending to want to invest mostly in relatively vanilla, flow products. Instead, market innovation has been taking place elsewhere. “When I see a client, the first question they ask is ‘is issue pricing good?’ But the truth is that [the pricing of] all of the products from these issuers are about the same. Where we differentiate selves is in the investment in the technology that allows us to be more competitive,” said Krkalo.

“Overall our pricing is better because we invested heavily in automation, in small ticket sizes, in straight through processing, lifecycle management, innovation come at service and platform level which has meant better service and better prices.”

He said the next market innovation for structured products could be their deconstruction, with investors able to consider the constituent parts of structured products such as equity-linked notes individually.

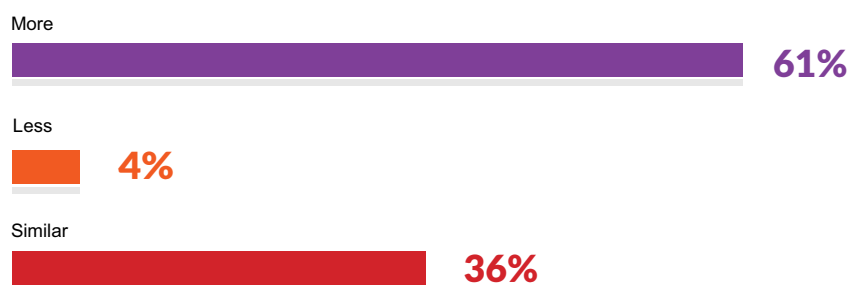
**“Today structured products are one of the most essential parts of any portfolio as they enable you to get access to asset classes you normally could not access.”**

**HANS GOETTI**  
Banque Internationale A Luxembourg



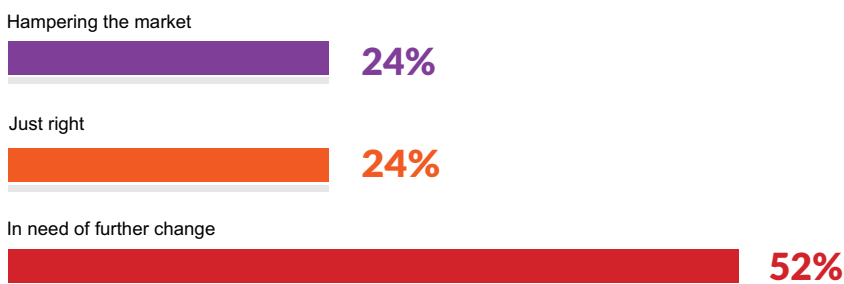
“The next innovation that I think will come relatively soon is that we treat them as de-compartmentalised constituents in a people’s portfolios.” ■

### AFTER THE RESURGENCE IN STRUCTURED PRODUCTS IN 2014, DO YOU EXPECT DEMAND IN 2015 OVERALL TO BE...



Source: Hubbis Structured Products Forum 2015 - Singapore

### REGULATION OF STRUCTURED PRODUCTS POST-2008 IS...



Source: Hubbis Structured Products Forum 2015 - Singapore